

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

(Time allowed: 3 Hours)

(100 Marks)

Question No. 1 is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

1. (a) State with reasons whether the following statements are True or False:
 - i. Inventory Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.
 - ii. The Sales book is kept to record both cash and credit sales.
 - iii. In the calculation of average due date, only the due date of first transaction must be taken as the base date.
 - iv. If a partner retires, then other partners have a gain in their profit sharing ratio.
 - v. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.
 - vi. Accrual concept implies accounting on cash basis.

(6 Statements x 2 Marks = 12 Marks)

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SUGGESTED ANSWERS/HINTS

1. (a) (i) **False** - Inventory Turnover Ratio measures the efficiency of the firm to manage its inventory. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.
- (ii) **False**- The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.
- (iii) **False**- While calculating the average due date, any transaction date may be taken as the base date.
- (iv) **True**- If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.
- (v) **False**- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
- (vi) **False**- Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

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Working Notes should form part of the answer.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons, whether the following statements are true or false:
 - 1 When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.
 - 2 Accrual concept implies accounting on cash basis.
 - 3 Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment
 - 4 $\text{Capital} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} + \text{Cash} - \text{Current Liabilities}$.
 - 5 Partners can share profits or losses in their capital ratio, when there is no agreement.
 - 6 Consignment account is of the nature of real account.

(6 statements x 2 Marks= 12 Marks)

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ANSWERS

1. (a)
- 1 False- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
 - 2 False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
 - 3 False - Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.
 - 4 False- The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is
$$\text{Equity} + \text{Long Term Liabilities} = \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities}$$
 - 5 False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
 - 6 False: Consignment account is a nominal account

1(a) State with reasons whether the following statements are True or False:

**2x6
= 12**

- (i) Finished goods are normally valued at cost or market price whichever is higher.
- (ii) Receipts and Payments Account highlights total income and expenditure.
- (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission
- (iv) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.
- (v) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities
- (vi) The value of human resources is generally shown as assets in the Balance Sheet.

Answer 1(a)

- (i) False :** Finished goods are normally valued at cost or net realizable value whichever is lower.
- (ii) False :** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period..
- (iii) False :** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
- (iv) False :** Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.
- (v) True :** Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.
- (vi) False :** The value of human resources cannot be measured in monetary terms, thus it will not be shown in the balance sheet.